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April 7, 1997

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APR 7 1997

Federal Communications Commission
Office of Secretary

William F. Caton, Secretary
Federal Communications Commission
Room 222
1919 M Street, N.W.
Washington, D.C. 20554

Re: Southwestern Bell Telephone Company's CEI Plan
for Security Service
CC Docket Nos. 85-229, 90-623, and 95-20

Dear Mr. Caton:

On behalf of the Alarm Industry Communications Committee ("AICC"), this letter responds to the *ex parte* notice submitted by Southwestern Bell Telephone Company ("SWBT") on April 3, 1997.

Unfortunately, SWBT's letter does not answer the critical question of whether it would have a financial stake in the success of its chosen alarm partners. The *Second Report and Order* makes clear that a BOC's compensation should be tied to its marketing activities, and may not "depend upon the unaffiliated firm's performance in offering alarm monitoring service."¹ While SWBT asserts (at footnote 3) that its compensation will not depend upon the alarm provider's performance and will be based instead on "the level (and associated cost) of advertising/marketing that SWBT will be contributing", its filing does not enable the Commission (or AICC) to determine whether that will in fact be the case. Because SWBT's revision lacks essential detail, it is difficult to determine what compensation arrangements SWBT would be permitted to develop if its CEI plan were approved.

¹ *Implementation of the Telecommunications Act of 1996: Telemessaging, Electronic Publishing, and Alarm Monitoring Services*, Second Report and Order, CC Docket No. 96-152, FCC 97-101, at ¶ 39 (rel. Mar. 25, 1997).

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AICC recommends that the Bureau seek additional information that it may use to judge whether SWBT's sales agency fee compensates it only for legitimate marketing and advertising activities. The following comparisons would be useful in the Bureau's analysis.

1. Although a one-time fee would be most appropriate, if the Bureau permits SWBT to receive monthly recurring revenue, that fee should be compared to what SWBT would receive through a one-time fee arrangement. Both a one-time fee and a monthly fee should be designed to compensate SWBT for the same initial sale. Therefore, a reasonable monthly commission would amortize the amount of a one-time fee (which itself should be reasonable) over the expected recovery period, which should not exceed 2-3 years. AICC understands that SWBT's compensation will be a specified fee per customer (see SWBT letter, n.3), regardless of the size or revenues generated from the account.

2. A fee compensating SWBT for advertising and marketing should reflect the magnitude of those costs. Therefore, one way to determine whether a fee is reasonable is to compare it to the additional cost SWBT actually incurs in advertising and marketing the alarm company's service. AICC cannot conceive of a circumstance where these costs would exceed 25% of the gross monthly monitoring fee charged to the end user.

3. The proposed fee also could be compared to compensation arrangements typical in the industry for sales agents of an alarm monitoring company. It is common in the alarm monitoring industry for sales agents to receive a 15-20 percent commission (usually paid on a one-time basis), calculated based upon 2-3 years of expected revenues. Using a nationwide average residential monitoring fee (exclusive of CPE maintenance) of \$20 per month, this measure suggests a commission of \$100-150.² In no event should the partner alarm monitoring company pay SWBT an amount approaching or exceeding that which an independent alarm monitoring company would ordinarily pay to purchase individual customer contracts from another provider in the business. If SWBT's fee equals this amount, then SWBT's arrangement is tantamount to it providing alarm monitoring service directly.

If SWBT proposes fee arrangements consistent with these three measures of reasonableness, and assuming SWBT meets the other commitments it has made in this docket, it is unlikely that SWBT would obtain a financial stake in the success of its partner

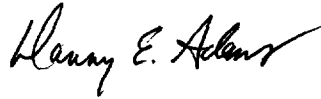
² At \$20 per month, the average account would generate \$720 in gross monitoring revenues over the first three years. A commission in the 15-20% range would produce a commission of between \$108 and \$144 per account.

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alarm monitoring companies. AICC looks forward to the opportunity to evaluate whether the financial arrangements SWBT proposes meets these criteria.

Sincerely,

A handwritten signature in cursive script, appearing to read "Danny E. Adams".

Danny E. Adams

cc: Attached service list

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